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SUBJECT: Honduras In Strong Support of Energy Integration Project

REF: MEXICO 07368

1. (U) Honduras is very interested in the Energy Integration Project proposed by Mexico, according to Honduran Trade and Commerce Minister Irving Guerrero. Per reftel, Mexico has proposed the construction of a Central American energy initiative that includes a 230 thousand barrel per day (bpd) refinery, a regional electrical grid, and an LNG (Liquefied Natural Gas) regasification system and pipeline. The project would include Mexico, the six Central American countries (Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, and Panama), the Dominican Republic, and possibly Colombia.

2. (SBU) Guerrero expressed the most interest in the regasification plant and pipeline, which he said had the best possibility of lowering costs in Honduras. "There is virtually no gas used in Honduras right now. Not only does it represent lower costs than petroleum-based fuel, it has the ability to create new industries in areas like glass and iron." Gas also has the ability to lower costs for the national electric company ENEC, he said, which relies on petroleum sources for 70% of its power generation.

3. (SBU) The refinery also holds significant interest for Honduras, Guerrero said, and identified Honduras' southern port of San Lorenzo (on Honduras' Gulf of Fonseca on the Pacific coast) as the best site. "It's close to Mexico's center of heavy Maya crude, the Inter-American highway, and three countries." The Gulf of Fonseca is shared by Honduras, El Salvador, and Guatemala, an area that could easily become an "energy free trade zone", per Guerrero. He believes that all three countries would support the location, pending the results of an independent analysis. A southern location would also remain far from Honduras' tourism-heavy north coast. (Note: Post had previously heard that San Lorenzo is too shallow to permit deep-draft crude tankers to dock, and will follow with interest the findings of the proposed site analysis. End Note.)

4. (SBU) In discussing a possible U.S. role, Guerrero said he believed that the proposed refinery, at 230 thousand bpd, is too small, and would only cover existing Central American requirements in the near future. "This refinery would use Mexico's heavy Maya crude to produce low sulphur gasoline; the U.S. is quickly moving to a low sulphur standard. A larger refinery, maybe twice as large, could successfully connect the southeastern U.S. with this initiative." Guerrero identified U.S. investment as necessary to scale up the size of the proposed refinery. (Note: In separate discussions with a U.S. consultant hired by the Honduran Congress to assess petroleum policies and pricing in Honduras, Post was told that for a refinery to be competitive in today's market, it must have a capacity of at least 500,000 bpd, closely mirroring Guerrero's remark. End note.)

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